

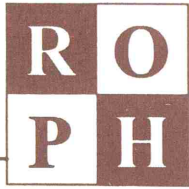
HIGHLAND
HEALTH SYSTEMS

FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

HIGHLAND HEALTH SYSTEMS
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Highland Health Systems
Anniston, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of Highland Health Systems as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

MEMBERS

American Institute of Certified Public Accountants, PCPS/The Alliance for CPA Firms, Alabama Society of Certified Public Accountants, Florida Institute of Certified Public Accountants
Governmental Audit Quality Center

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Highland Health Systems, as of September 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 15 and the Schedule of Changes in the Net Pension Liability and Schedule of Employer Contributions on pages 36 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Highland Health Systems. The schedule of revenues and schedule of expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of revenues and schedule of expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and schedule of expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2019, on our consideration of Highland Health Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over

financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Highland Health Systems' internal control over financial reporting and compliance.

Rabren, Odom, Pierce + Hayes, PC

Andalusia, Alabama
April 24, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

HIGHLAND HEALTH SYSTEMS

Management's Discussion and Analysis

Highland Health Systems ("the Board") is a special purpose government engaged only in business-type activities as outlined in the Codification of Governmental Accounting and Financial Reporting Standards, Section Sp20.107. The Board presents its statements as a business-type activity (BTA) under the provisions of GASB Statement No. 34. The BTA format also requires presentation of 1) assets and liabilities as current and non-current, 2) revenues and expenses as operating and non-operating, 3) the use of the direct method for the statement of cash flows, and 4) a management's discussion and analysis of the financial results.

Highland Health Systems provides mental health services to individuals residing in Calhoun and Cleburne counties located in the state of Alabama.

Management has prepared a discussion and analysis of the financial performance of the Board for the fiscal years ended September 30, 2018 and 2017. The Board accounts for its transactions in accordance with the pronouncements issued by the Governmental Accounting Standards Board (GASB).

The objectives of the management's discussion and analysis focus on current activities, resulting changes, and currently known facts to provide the reader with an overall summary of the Board's financial statements for the fiscal years ended September 30, 2018 and 2017. It should be read in conjunction with the financial statements and related notes. Responsibility for the completeness and fairness of this information rests with the Board's management.

FINANCIAL HIGHLIGHTS

- Assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources resulting in net position of \$6,193,958 and \$6,147,227 as of September 30, 2018 and 2017, respectively.
- Current assets decreased \$1,447,514 and increased \$420,239 as of September 30, 2018 and September 30, 2017, respectively.
- Revenues exceeded expenses by \$46,731 resulting in a .7% increase in net position as of September 30, 2018 and \$190,327 resulting in a 3% increase in net position as of September 30, 2017.

STATEMENT OF NET POSTION

The Statement of Net Position presents yearly comparisons of financial information for Highland Health Systems on all of the Board's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Examining the Board's net position is one way to evaluate the Board's financial health. Increases or decreases in net position from year to year indicate the improvement or deterioration of the Board's financial health. Total assets decreased during the year ended September 30, 2018 by \$1,445,663 and increased by \$326,407 during the year ended September 30, 2017. The substantial decrease in 2018 was due to a discretionary contribution of \$1,000,000 to The Retirement Systems of Alabama to be applied to the Board's unfunded net pension liability.

HIGHLAND HEALTH SYSTEMS

Management's Discussion and Analysis

Total liabilities decreased by \$2,492,520 during the year ended September 30, 2018 and increased during the year ended September 30, 2017 by \$408,764. The decrease and increase are attributable to the changes in net pension liability. Overall net position increased \$46,731 and \$190,327 during the years ended September 30, 2018 and 2017, respectively. Restricted net position at September 30, 2018 and 2017 was \$21,013 and \$78,193, respectively.

Condensed Statements of Net Position are provided below:

	September 30, 2018	September 30, 2017	September 30, 2016	2017-2018 Change	2016-2017 Change
Assets					
Current Assets	\$ 5,299,846	\$ 6,747,360	\$ 6,327,121	\$ (1,447,514)	\$ 420,239
Restricted Investments	21,013	19,591	17,395	1,422	2,196
Capital Assets, net of depreciation	2,676,356	2,675,927	2,771,955	429	(96,028)
Total Assets	7,997,215	9,442,878	9,116,471	(1,445,663)	326,407
Deferred Outflows of Resources					
Related to Pension Plan	812,508	1,018,216	861,623	(205,708)	156,593
Liabilities					
Current Liabilities	457,289	595,177	439,830	(137,888)	155,347
Non-Current Liabilities	853,255	3,207,887	2,954,470	(2,354,632)	253,417
Total Liabilities	1,310,544	3,803,064	3,394,300	(2,492,520)	408,764
Deferred Inflows of Resources					
Related to Pension Plan	1,305,221	510,803	626,894	794,418	(116,091)
Net Position					
Net Investment in Capital Assets	2,233,543	2,173,741	2,212,747	59,802	(39,006)
Restricted	21,013	78,193	74,226	(57,180)	3,967
Unrestricted	3,939,402	3,895,293	3,669,927	44,109	225,366
Total Net Position	\$ 6,193,958	\$ 6,147,227	\$ 5,956,900	\$ 46,731	\$ 190,327

For a more detailed understanding of Highland Health Systems' net position, the reader should review the Statement of Net Position and Notes to the Financial Statements.

HIGHLAND HEALTH SYSTEMS

Management's Discussion and Analysis

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Board's net position changed during the year. The purpose of this statement is to present the revenues, both operating and nonoperating; and any other revenues, expenses, gains and losses to explain how the Center's net position changed between fiscal years or accounting periods.

Generally, operating revenues are received for providing goods and services to the various clients and constituencies of the Board. Operating expenses are paid to acquire or produce the goods and services necessary to operate the board efficiently and effectively. Nonoperating revenues and expenses are items such as interest income, contributions and interest expense.

Condensed Statements of Revenues, Expenses, and Changes in Net Position for the Board are provided below:

	September 30, 2018	September 30, 2017	September 30, 2016	2017-2018 Change	2016-2017 Change
Operating Revenues	\$ 13,440,744	\$ 13,774,146	\$ 13,467,387	\$ (333,402)	\$ 306,759
Operating Expenses	13,390,400	13,509,217	12,907,580	(118,817)	601,637
Operating Income	50,344	264,929	559,807	(214,585)	(294,878)
Non-operating Revenues (Expenses)	(3,613)	(74,602)	(13,361)	70,989	(61,241)
Increase in Net Position	46,731	190,327	546,446	(143,596)	(356,119)
Net Position - October 1	6,147,227	5,956,900	5,410,454	190,327	546,446
Net Position - September 30	<u>\$ 6,193,958</u>	<u>\$ 6,147,227</u>	<u>\$ 5,956,900</u>	<u>\$ 46,731</u>	<u>\$ 190,327</u>

The Board realized an increase in net position for the years ended September 30, 2018 and 2017 of \$46,731 and \$190,327, respectively. For a more detailed understanding of the Board's financial activities, the reader should review the Statement of Revenues, Expenses, and Changes in Net Position and Notes to Financial Statements.

HIGHLAND HEALTH SYSTEMS

Management's Discussion and Analysis

September 30, 2018

- The total number of clients served declined in 2018. Total consumers seen was 5,610 in 2018 versus 5,957 in 2017.
- Total operating revenues decreased \$333,402 or 2.4%. This was primarily due to less revenue received from Group Home rent, DMH MI contract patient fees, DMH Developmentally Disabled (DD) contract Group Home patient fees, Other Contract revenue and an increase in Bad Debt contra revenue. DD Group Home rent declined \$97,775 in 2018. In 2017, \$103,220 was received for back pay from the Social Security Administration. This resulted in a decline in the Group Home rental income in 2018. Mentally Ill patient fees and DD Group Home patient fees declined \$241,214 and \$148,170 respectively in 2018 due to fewer client services rendered. Other revenues and miscellaneous patient fees declined in total by \$56,242 due primarily to less probate fee receipts associated with the Calhoun County Mental Health Advisory Board. Bad Debt contra revenue increased \$181,464 in 2018 in order to reserve for self-pay client doubtful accounts.
- DMH comprehensive MI contract services and Pharmacy Sales increased in 2018 by \$246,796 and \$192,568, respectively. The DMH comprehensive contract payments are directly tied to Medicaid services billed. In 2018 fewer Medicaid services rendered resulted in an increase in 2018 contract payments. Also, an amendment to the 2018 contract paid an additional \$41,000 to Highland Health Systems in 2018. Pharmacy sales increased \$192,568 in 2018. The number of prescriptions filled in 2018 decreased 100 scripts, however the mix of drugs sold were more expensive resulting in higher revenues year over year.
- Total operating expenses decreased \$118,817 or .9%. The decrease in operating expenses was due to decreases in several line items. Salaries and fringe benefits, including health insurance and retirement expenses, decreased in total \$189,749. The cost of drugs sold increased \$219,150 due to the mix of prescriptions sold that had a higher value. Actual prescriptions filled decreased by 100 scripts, but actual revenues increased year over year.

The following bullet points identify increases or decreases in cost by expense type:

- Salary cost increased \$122,542 or 1.9% due primarily to Wage increases. Increases to base wages for Therapist was necessary to stabilize the work force.
- Retirement expenses decreased \$298,397 due to a year end actuarial credit adjustment of \$293,069.

HIGHLAND HEALTH SYSTEMS

Management's Discussion and Analysis

September 30, 2018, continued

- Repairs and Maintenance Building and Grounds decreased \$35,964 or 16.9% due to fewer Group Home repairs in 2018 than in the prior year.
- Van Expenses increased \$36,181 or 25% due to the aging of current vehicle fleet.
- Miscellaneous Employee Related expenses decreased \$66,909 or 59.8% in 2018. This was due to a 2017 payment to the Retirement Systems of Alabama for a one time lump sum increase to retired employees of \$27,130. The remainder is due to decreased newspaper advertising for new employees as we are now utilizing Indeed at a reduced rate.
- Professional Services increased \$25,714 or 15.3% due to additional legal expenses and due to higher contract Psychiatric fees than in the previous year.
- Telephone Expense increased \$33,173 or 29.1% due to increased monthly charges from Earthlink due to an expired contract. Negotiations were successful to convert to fiber optic systems in 2019 which will reduce phone expenses.
- Travel expenses decreased \$20,294 in 2018. In 2017, 3 employees and one guard traveled to India to safely return a client to his home in India.
- Janitorial supplies decreased \$22,102 or 61.3% due to less Stripper, Wax, and floor cleaner purchased than in the prior year.
- Program Supplies & Activities decreased \$22,741 or 9.1% due to fewer client activity expenses than in the prior year.
- Food expenses at Group Homes decreased \$13,497 or 5.5% due to increased purchases from Sysco and less purchases through local Grocery Retailers.
- Cost of retail drugs sold increased \$219,150 or 10.1% due to the mix of prescription drugs sold that had a higher value.
- Probate Expenses decreased \$64,799 due to the transfer of the Calhoun County Mental Health Advisory Board to the Calhoun Co. Administrative Office at the end of FY 2017.
- Computer Accessories decreased \$23,900 due to fewer IT purchases of personal computers and miscellaneous computer supplies than in FY 2017.
- Information Systems License fees increased \$48,499 due to the conversion to the new Carelogic billing system.

HIGHLAND HEALTH SYSTEMS

Management's Discussion and Analysis

September 30, 2018, continued

- Furniture & Equipment Depreciation decreased \$24,178 in 2018 as many of the older assets became fully depreciated.
- Office Supplies decreased \$14,906 due to utilization of existing inventory.

September 30, 2017

- The total number of clients served remained relatively the same in 2017. Total consumers seen was 5,957 in 2017 versus 5,794 in 2016.
- Total operating revenues increased \$306,759 or 2.3%. This was primarily due to higher revenue received from State and Local Grants and Contracts, Group Home rent, Retail Drug Sales, and Other Contracts. State and Local Contracts increased \$332,572 primarily due to fewer revenue adjustments associated with Bad Debts. The Group Home rent increased \$103,220 due to the back pay from the Social Security Administration for two clients which resulted in higher rental collections. The actual number of prescriptions filled in 2017 was down 798 scripts but the mix of drugs sold were more expensive resulting in higher revenue year over year by \$56,609. Other Contracts increased \$52,000 due to an increase in Drug Court/Family Drug Court, Mental Health Court and Veteran's Court than prior year. These revenue increases were offset by a decrease in Patient fees, Federal Grants and Contracts, and other operating revenues of \$237,642 year over year.
- Total operating expenses increased \$601,637 or 4.6%. The increase in operating expenses were due to increases in several line items. Salaries and fringe benefits, including health insurance and retirement expenses, increased \$553,127. The cost of drugs sold increased \$74,542 due to the mix of prescriptions sold that had a higher value. Actual prescriptions filled decreased by 798 scripts but actual revenues increased year over year.

The following bullet points identify increases or decreases in cost by expense type:

- Salary cost increased \$357,606 or 5.9% due primarily to the addition of approximately 6 full time employees and due to 2017 wage increases.
- Health insurance premiums increased \$73,500 due to a 4% premium increase and due to higher employee enrollments.
- Retirement expenses increased \$71,600 partially due to the year end actuarial adjustment and due to increased enrollments.
- Contract labor decreased \$34,372 due to a casual labor position being converted to a full time staff position in 2017.

HIGHLAND HEALTH SYSTEMS

Management's Discussion and Analysis

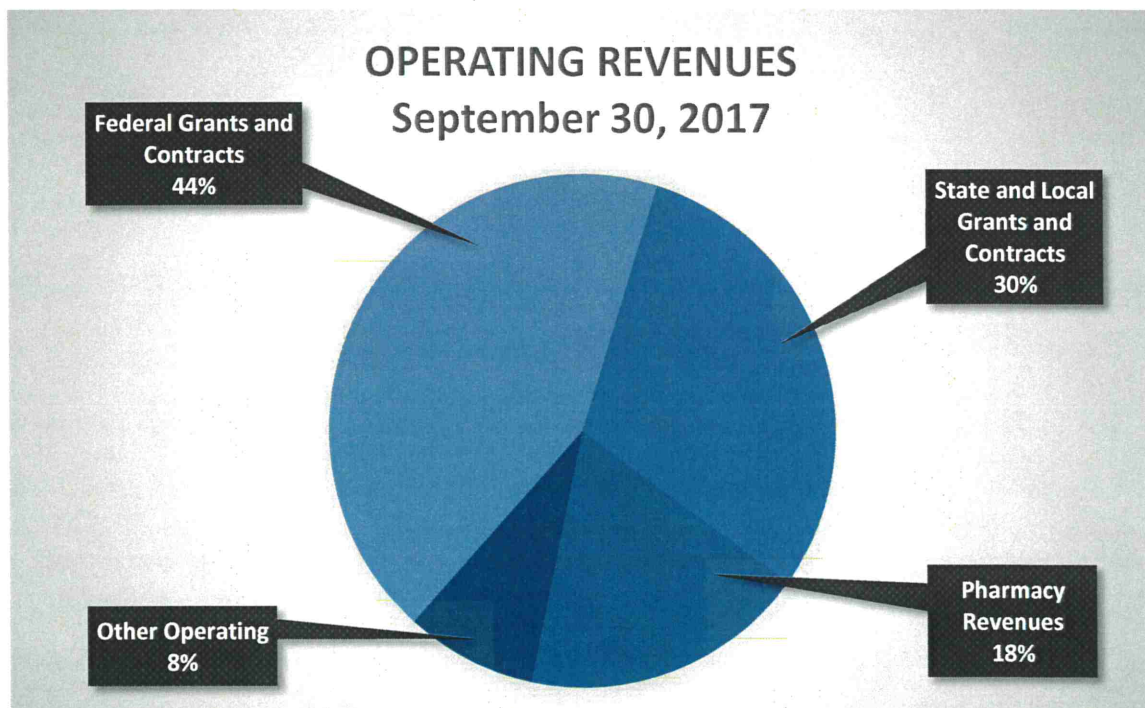
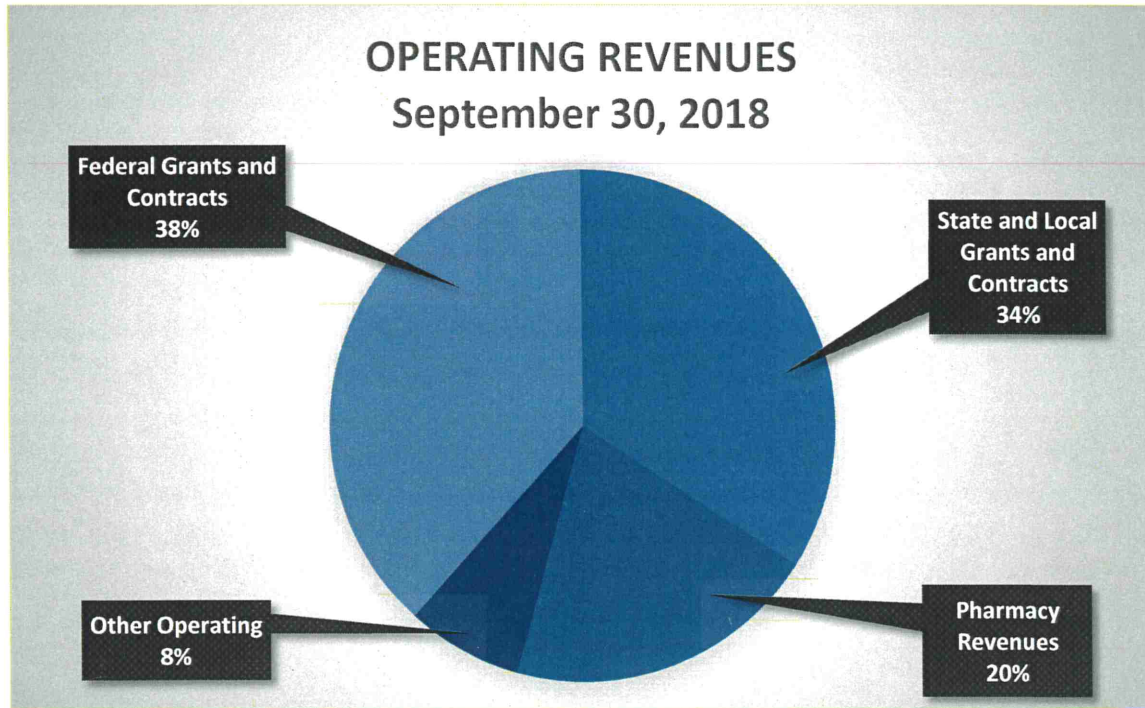
September 30, 2017, continued

- Dues, fees and license expenses increased \$44,201 due to Software License fees for 20 additional users associated primarily for the Crisis Residential Program.
- Employee Related expenses increased \$56,991 or 103% due to a payment to the Retirement Systems of Alabama for a one time lump sum increase to retired employees enrolled in the retirement plan of \$27,130. The remaining \$29,861 is due to increased advertising for potential employees and the purchase of an employee testing service for new employees.
- Professional Services decreased \$84,408 or 33.5% due to less legal expenses than the previous year.
- Security Guard Services increased \$14,214 or 6.0 % due to additional guards necessary to protect staff and clients at the Crisis Residential Program.
- Utility expenses increased \$18,301 or 6.9% due to an increase in power used at the Main Center and Group Homes.
- Cost of retail drugs sold increased \$74,542 or 3.6% due to the mix of prescription drugs sold that had a higher value.

HIGHLAND HEALTH SYSTEMS

Management's Discussion and Analysis

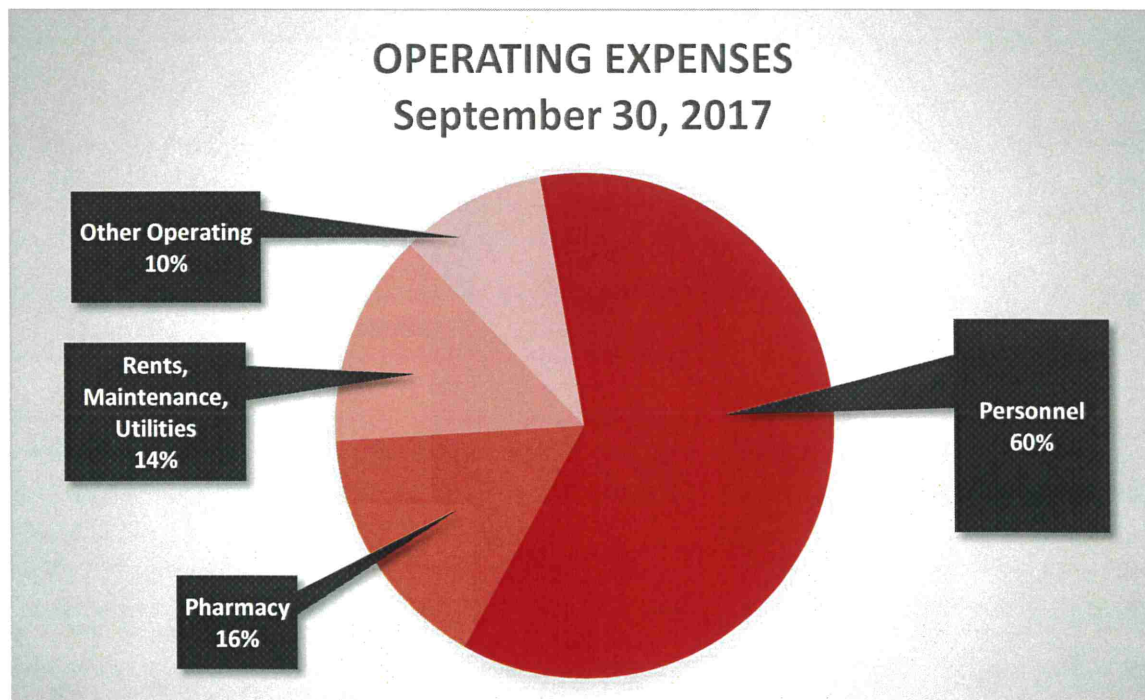
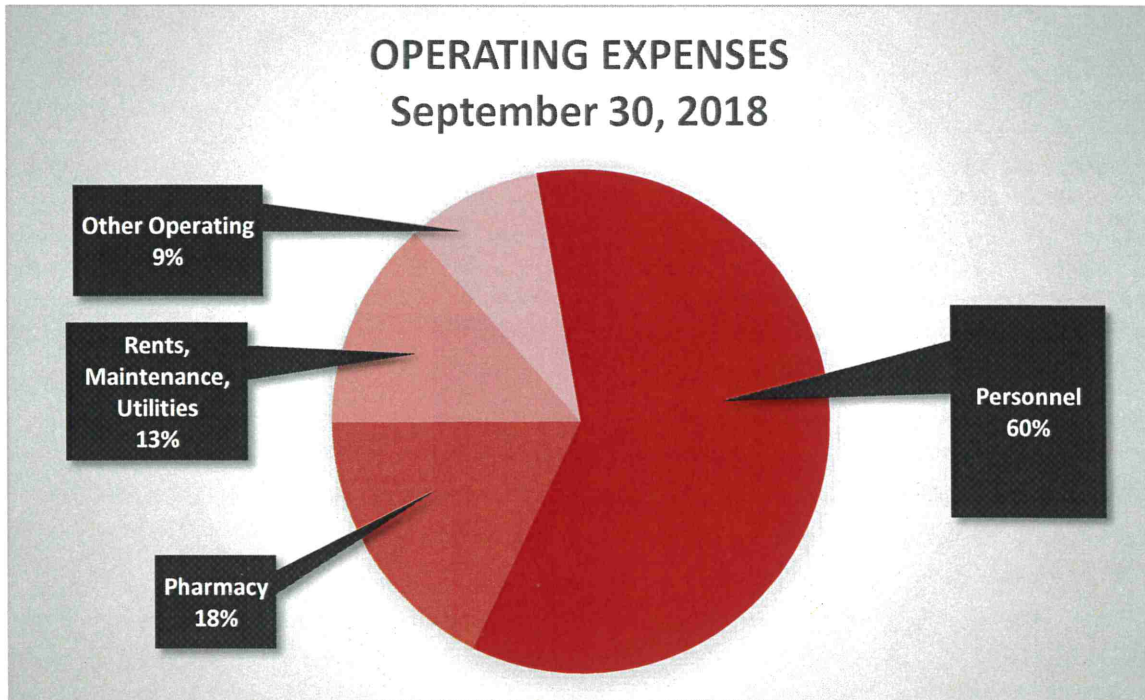
The charts below provide a visual presentation of the Board's operating revenues by categories for the years ended September 30, 2018 and 2017. Federal, state and local grants and contracts are the Board's major revenue sources.



HIGHLAND HEALTH SYSTEMS

Management's Discussion and Analysis

The charts below present the Board's operating expenses by major classifications for the years ended September 30, 2018 and 2017. Personnel costs make up more than 50% of the Board's operating expenses and consists of salaries, wages and fringe benefits.



HIGHLAND HEALTH SYSTEMS

Management's Discussion and Analysis

STATEMENT OF CASH FLOWS

The Statement of Cash Flows is to provide an understanding of the Board's cash activity during the year and to assess an entity's ability to generate future cash flows, meet obligations as they come due and any needs for external financing.

Condensed Statements of Cash Flows are provided below:

	September 30, 2018	September 30, 2017	September 30, 2016	2017-2018 Change	2016-2017 Change
Cash Provided (Used) By:					
Operating Activities	\$ (948,989)	\$ 273,767	\$ 1,679,215	\$ (1,222,756)	\$ (1,405,448)
Noncapital Financing Activities	3,550	(54,802)	4,000	58,352	(58,802)
Capital and Related Financing Activities	(289,493)	(218,767)	(173,539)	(70,726)	(45,228)
Investing Activities	150	182	137	(32)	45
Net Increase (Decrease) in Cash and Cash Equivalents	(1,234,782)	380	1,509,813	(1,235,162)	(1,509,433)
Cash and Cash Equivalents - Beginning of Year	4,106,698	4,106,318	2,596,505	380	1,509,813
Cash and Cash Equivalents - End of Year	<u>\$ 2,871,916</u>	<u>\$ 4,106,698</u>	<u>\$ 4,106,318</u>	<u>\$ (1,234,782)</u>	<u>\$ 380</u>

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. Cash decreased \$1,234,782 and increased \$380 during the years ended September 30, 2018 and 2017, respectively. For a more detailed understanding of the Statements of Cash Flows, please see the actual statements and notes to the financial statements.

CAPITAL ASSETS

As of September 30, 2018 and 2017, the Board had \$2,676,356 and \$2,675,927, respectively, invested in a variety of capital assets as seen in the next table. Capital asset additions amounted to \$288,224 and \$139,931 during years ended September 30, 2018 and 2017, respectively. Depreciation of capital assets for the years ended September 30, 2018 and 2017 was \$217,545 and \$235,959, respectively.

HIGHLAND HEALTH SYSTEMS

Management's Discussion and Analysis

A summary of capital assets and accumulated depreciation at September 30, 2018 and 2017 is presented below:

	2018	2017
Land	\$ 66,711	\$ 66,711
Construction in Progress	-	70,250
Buildings	5,065,377	4,873,691
Furniture and Equipment	709,426	1,601,007
Computer Equipment	430,216	338,263
Vehicles	822,124	-
	<u>7,093,854</u>	<u>6,949,922</u>
Less: Accumulated Depreciation	<u>(4,417,498)</u>	<u>(4,273,995)</u>
Net Capital Assets at September 30	<u>\$ 2,676,356</u>	<u>\$ 2,675,927</u>

For more detailed information regarding the Board's capital assets, please refer to the notes in the financial statements.

DEBT

As of September 30, 2018 and 2017 the Board had \$746,322 and \$800,250 of long-term debt, respectively. Net pension liability amounted to \$320,723 and \$2,613,918 as of September 30, 2018 and 2017, respectively. Additional information about debt and other obligations of the Board are included in the notes to the financial statements.

FUTURE ECONOMIC FACTORS

The economic outlook for the Board is closely tied to the Alabama Department of Mental Health. In order to bill Medicaid, the Board must continue to receive matching receipts from State and Local governmental entities. The Board's reliance on these government contract dollars creates an economic dependence. Revenues related to these contracts account for approximately 75% of the Board's revenues. State and Federal contracts received level funding for FY 2017-2018 fiscal year. We expect to receive a slight increase in Medicaid rates beginning in April 2019 for the fiscal year 2018-2019. All other contracts should remain at level funding in FY 2018-2019.

Highland Health Systems continues to be a comprehensive community mental health center for individuals needing treatment for mental illness, developmental disabilities, substance abuse and primary care services. The Board's goal is to continue to provide the highest quality of treatment to consumers.

HIGHLAND HEALTH SYSTEMS

Management's Discussion and Analysis

Request for Information

This financial report is designed to present users with a general overview of Highland Health Systems' financial condition and to demonstrate their accountability. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Mickey Turner, Highland Health Systems, Post Office Box, 2205, Anniston, Alabama 36202.

FINANCIAL STATEMENTS

HIGHLAND HEALTH SYSTEMS
STATEMENTS OF NET POSITION
September 30, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$ 2,871,916	\$ 4,035,639
Cash and Cash Equivalents - Restricted	-	71,059
Investments	252,401	248,991
Receivables, net	1,994,961	2,223,390
Drug Inventory	135,200	141,197
Prepaid Expenses	45,368	27,084
Total Current Assets	<u>5,299,846</u>	<u>6,747,360</u>
Noncurrent Assets		
Restricted Investments	21,013	19,591
Capital Assets:		
Land	66,711	66,711
Construction in Progress	-	70,250
Depreciable Buildings, Property, and Equipment, net	<u>2,609,645</u>	<u>2,538,966</u>
Total Noncurrent Assets	<u>2,697,369</u>	<u>2,695,518</u>
Total Assets	<u>7,997,215</u>	<u>9,442,878</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pension Plan	<u>812,508</u>	<u>1,018,216</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	116,017	246,709
Accrued Payroll Liabilities	127,482	129,730
Client Funds	-	12,457
Long-Term Liabilities, Current Portion	<u>213,790</u>	<u>206,281</u>
Total Current Liabilities	<u>457,289</u>	<u>595,177</u>
Noncurrent Liabilities		
Net Pension Liability	320,723	2,613,918
Long-Term Liabilities, Net of Current Portion	<u>532,532</u>	<u>593,969</u>
Total Noncurrent Liabilities	<u>853,255</u>	<u>3,207,887</u>
Total Liabilities	<u>1,310,544</u>	<u>3,803,064</u>
DEFERRED INFLOWS OF RESOURCES		
Related to Pension Plan	<u>1,305,221</u>	<u>510,803</u>
NET POSITION		
Net Investment in Capital Assets	2,233,543	2,173,741
Restricted	21,013	78,193
Unrestricted	<u>3,939,402</u>	<u>3,895,293</u>
Total Net Position	<u>\$ 6,193,958</u>	<u>\$ 6,147,227</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

HIGHLAND HEALTH SYSTEMS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended September 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Patient Fees	\$ 128,112	\$ 136,725
Group Home Rents and Fees	475,687	573,462
Federal Grants and Contracts	5,137,723	5,949,746
State and Local Grants and Contracts	4,601,621	4,161,551
Other Contracts	224,000	224,000
Retail Drug Pharmacy	2,706,584	2,514,016
Other Operating Revenues	167,017	214,646
Total Operating Revenues	<u>13,440,744</u>	<u>13,774,146</u>
OPERATING EXPENSES		
Salaries and Fringe Benefits	8,027,729	8,217,478
Advertising	42,426	48,837
Client Expenses	27,842	33,140
Contract Labor	28,894	12,394
Depreciation	217,545	235,959
Dues, Fees and Licenses	193,041	131,569
Employee Related Expenses	45,016	111,925
Food	242,593	256,090
Insurance	243,458	250,653
Other	5,998	71,911
Postage	9,488	11,485
Professional Fees	193,315	167,601
Rents	143,373	149,469
Repairs and Maintenance	317,515	315,126
Retail Drug Expense	2,378,313	2,159,163
Security Services	267,389	250,786
Small Furniture and Equipment	15,249	32,962
Supplies	316,205	402,807
Travel and Training	132,712	158,609
Utilities and Telephone	453,315	409,468
Vehicle Operation	88,984	81,785
Total Operating Expenses	<u>13,390,400</u>	<u>13,509,217</u>
Operating Income	<u>50,344</u>	<u>264,929</u>
NONOPERATING REVENUES (EXPENSES)		
Net Investment Income	4,982	2,015
Contributions	3,550	3,800
Gain (Loss) on Disposal of Assets	7,718	400
Interest Expense	(19,863)	(22,215)
Transfer to the Calhoun County Commission	-	(58,602)
Total Nonoperating Expenses	<u>(3,613)</u>	<u>(74,602)</u>
Increase in Net Position	46,731	190,327
Net Position - October 1	<u>6,147,227</u>	<u>5,956,900</u>
Net Position - September 30	<u>\$ 6,193,958</u>	<u>\$ 6,147,227</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

HIGHLAND HEALTH SYSTEMS
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients	\$ 13,085,524	\$ 12,800,251
Payments to Employees	(9,315,352)	(8,159,026)
Payments to Suppliers and Others	(5,302,810)	(4,994,113)
Other Receipts	583,649	626,655
Net Cash Provided (Used) by Operating Activities	(948,989)	273,767
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions	3,550	3,800
Transfer to the Calhoun County Commission	-	(58,602)
Net Cash Provided (Used) by Noncapital Financing Activities	3,550	(54,802)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	7,718	400
Purchases of Capital Assets	(217,974)	(139,931)
Principal Paid on Capital Debt	(59,374)	(57,021)
Interest Paid on Capital Debt	(19,863)	(22,215)
Net Cash Used by Capital and Related Financing Activities	(289,493)	(218,767)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	150	182
Net Cash Provided by Investing Activities	150	182
Net Increase (Decrease) in Cash and Cash Equivalents	(1,234,782)	380
Cash and Cash Equivalents - Beginning of Year		
Restricted	71,059	71,636
Unrestricted	4,035,639	4,034,682
	4,106,698	4,106,318
Cash and Cash Equivalents - End of Year		
Restricted	-	71,059
Unrestricted	2,871,916	4,035,639
	\$ 2,871,916	\$ 4,106,698

The accompanying Notes to the Financial Statements are an integral part of this statement.

HIGHLAND HEALTH SYSTEMS
STATEMENTS OF CASH FLOWS (continued)
Years Ended September 30, 2018 and 2017

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	\$ 50,344	\$ 264,929
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	217,545	235,959
Receivables, net	228,429	(347,241)
Inventory	5,997	(48,097)
Prepaid Expenses	(18,284)	(24,884)
Accounts Payable	(130,692)	7,267
Accrued Payroll Liabilities	(2,248)	129,730
Other Liabilities	(12,457)	(2,348)
Compensated Absences	5,446	41,396
Net Pension Liability	(1,293,069)	17,056
Net Cash Provided (Used) by Operating Activities	<u>\$ (948,989)</u>	<u>\$ 273,767</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Highland Health Systems became the official new name for the Calhoun-Cleburne Mental Health Board, Inc. when the Board amended their Articles of Incorporation during the year ended September 30, 2015.

Highland Health Systems (“the Board”) was incorporated in February 1967 and reincorporated March 8, 1972 under provisions of Act 310, Section 252, and Title 45 of the Code of Alabama 1940. The Board is a special purpose governmental entity engaged in business-type activities and exists to promote the health and general welfare of the people in the service area by providing a comprehensive program of community based mental health, substance abuse, and residential services. The service area consists of Calhoun and Cleburne counties located in the State of Alabama.

Statements No. 14 and No. 34 of the Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. To fairly present the financial position and results of operations of the financial reporting entity, a government must determine whether its reporting entity consists of only the entity known as the “primary government” or one or more organizations called “component units”. Inclusion of a potential component unit in the primary government’s reporting entity depends primarily on the notion of financial accountability. A primary government is financially accountable for a legally separate agency if its officials appoint a voting majority of that agency’s governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Based upon the application of these criteria, there are no component units which should be included as part of the financial reporting entity of the Board.

The financial statements of the Board have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). The Governmental Accounting Standards Board is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standard Board (FASB) issued after November 30, 1989 are not applied.

BASIS OF ACCOUNTING PRESENTATION

The Board is a self-supporting entity and follows enterprise fund reporting. An enterprise fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that costs (expense, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. All assets, liabilities, net position, revenues, and expenses of the Board are accounted for through a single proprietary (enterprise) fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Board are patient fees and federal, state, and local grant contract awards. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these criteria are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Tax and Corporate Status

The Board is a tax exempt organization under the provision of Section 501(c)(3) of the Internal Revenue Code and the Code of Alabama 1975, 22-41-1 through 22-51-14. Accordingly, no provision for income taxes has been made.

Cash and Cash Equivalents

Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, and investments with a maturity of three months or less.

Patient Receivables

An amount for unpaid patient services is recorded as a receivable in the records of the Board. An appropriate amount has been reserved as uncollectible patient receivables based upon prior history of uncollected receivables from patient services.

Inventory

Inventory is valued at cost (first-in, first-out). The cost is recorded as an expense at the time individual inventory items are consumed.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond year end are recorded as prepaid items.

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

During the year ended September 30, 2017, the Board amended the capitalization policy for their capital assets. The approved change increased the individual cost of a capital asset from \$500 or greater to \$2,500 or greater. Effective November 1, 2016, the Board's amended capital asset policy defines capital assets as assets with an individual cost of \$2,500 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or at valuations, which approximate cost. Gifts or contributions of property received are recorded at their estimated fair market value at the time received.

Maintenance and repairs, which do not significantly extend the value or life of capital assets, are expensed as incurred. Property, plant, and equipment are depreciated by the straight-line method. Depreciation is calculated using the following estimated useful lives:

Buildings and Improvements	5 - 40 years
Furniture and Equipment	3 - 20 years
Computer Equipment	3 - 20 years
Vehicles	3 - 10 years

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. Contributions made to the Board's defined benefit pension plan between the measurement date of the net pension liabilities from the plan and the end of the Board's fiscal year will be recognized in subsequent fiscal years.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The deferred amount related to pensions is a result of pension plan investment earnings in excess of the expected amounts included in determining pension expense. This deferred inflow of resources is for revenues that will be recognized in subsequent fiscal years.

Compensated Absences

A liability has been recorded by the Board for annual leave and sick leave accumulated but unpaid as of September 30, 2018 and 2017. The Board's annual leave policy states that a terminated employee in good standing may be entitled to and compensated for the unused annual leave, which has accrued to them up to a maximum of 15 workdays, however, the final decision is that of the Executive Director. The Board's sick leave policy was amended for the year ended September 30, 2017. The amendment states that after the accumulation of 36 days of sick leave, an employee may request the days in excess of 36 be paid to them. The option is only for those days accrued in the year for which payment is being made and may only be exercised in October of each year for the prior twelve months. Accumulated sick leave is not paid upon termination.

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Defined Benefit Pension Plan

Financial reporting information pertaining to the Board's participation in The Employees' Retirement System of Alabama (the Plan) is prepared in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

The Plan's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements.

Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made.

Investments are reported at fair value. Financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

Net Position

Net Position is classified in the following categories:

Net Investment in Capital Assets – This category represents capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted – This category represents constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation. The Board had restricted net position of \$21,013 and \$78,193 for years ended September 30, 2018 and 2017, respectively.

Unrestricted – This category represents net position that is not subject to externally imposed stipulations and are available for any purpose.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, followed by unrestricted resources.

Highland Health Systems has not adopted a formal written policy for deposits or investing surplus funds; therefore, the Authority follows the deposit and investment policies as required by the Code of Alabama 1975, Section 41-14A-3 and Section 36-17-18.

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 2 – CASH AND CASH EQUIVALENTS

Custodial Credit Risk – The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Board will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board's deposits at year end were covered by the federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Section 41-14A-3 and Section 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. Management believes the Board is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 3 – INVESTMENTS

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board does not have a formal investment policy that limits the amount of securities that can be held by counterparties.

At September 30, 2018 and 2017, the Board had the following investments measured at fair market value based on available quoted prices in active markets for identical assets:

<u>Unrestricted:</u>	<u>2018</u>	<u>2017</u>
Cash and Money Market Accounts	\$ 7,902	\$ 578
Stocks, Options & ETFs	24,042	23,068
Fixed Income Securities	220,457	225,345
	<u>\$ 252,401</u>	<u>\$ 248,991</u>
<u>Restricted:</u>		
Endowment Fund	<u>\$ 21,013</u>	<u>\$ 19,591</u>

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 4 – RECEIVABLES

The Board bills Alabama Department of Mental Health, Medicaid, Medicare, and other third-party payers for services rendered to patients. The mix of patient accounts receivable as of September 30, 2018 and 2017 is as follows:

	2018	2017
Alabama Department of Mental Health		
Contracts, Medicaid and Medicare	\$ 2,157,061	\$ 2,169,252
Patients and Other Third-Party Payers	167,900	174,138
	<u>2,324,961</u>	<u>2,343,390</u>
Less: Allowance for Doubtful Accounts	(330,000)	(120,000)
	<u>\$ 1,994,961</u>	<u>\$ 2,223,390</u>

NOTE 5 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended September 30, 2018:

	Balance 9/30/2017	Additions	Deletions	Reclassifications	Balance 9/30/2018
<u>Depreciable Assets:</u>					
Buildings and Improvements	\$ 4,873,691	\$ 191,686	\$ -	\$ -	\$ 5,065,377
Furniture and Equipment	1,601,007	3,922	-	(895,503)	709,426
Computer Equipment	338,263	92,616	(663)	-	430,216
Vehicles	-	-	(73,379)	895,503	822,124
	<u>6,812,961</u>	<u>288,224</u>	<u>(74,042)</u>	<u>-</u>	<u>7,027,143</u>
Less: Accumulated Depreciation	(4,273,995)	(217,545)	74,042	-	(4,417,498)
	<u>2,538,966</u>	<u>70,679</u>	<u>-</u>	<u>-</u>	<u>2,609,645</u>
<u>Non-Depreciable Assets:</u>					
Land	66,711	-	-	-	66,711
Construction in Progress	70,250	2,766	(73,016)	-	-
	<u>136,961</u>	<u>2,766</u>	<u>(73,016)</u>	<u>-</u>	<u>66,711</u>
	<u>\$ 2,675,927</u>	<u>\$ 73,445</u>	<u>\$ (73,016)</u>	<u>\$ -</u>	<u>\$ 2,676,356</u>

Depreciation expense for the years ended September 30, 2018 and 2017 was \$217,545 and \$235,959, respectively. Construction in progress as of September 30, 2017 related to the new medical records software was completed and placed into service during year ended September 30, 2018. The Board reclassified certain capital assets within asset classes during the year ended September 30, 2018.

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 6 – LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2018 was as follows:

	Balance 10/1/2017	Additions	Reductions	Balance 9/30/2018	Due Within One Year
Mortgage Payable - Compass					
For the construction of the New Directions Building, payable in monthly installments of \$3,700, including interest at 4.92%. Matures August, 2025.	\$ 292,215	\$ -	\$ (30,522)	\$ 261,693	\$ 32,300
Mortgage Payable - Compass					
For the purchase of property, payable in monthly installments of \$2,903, including interest at 3.05%. Matures May, 2024	209,972	-	(28,852)	181,120	29,735
Compensated Absences	298,063	651,357	(645,911)	303,509	151,755
Total	<u>\$ 800,250</u>	<u>\$ 651,357</u>	<u>\$ (705,285)</u>	<u>\$ 746,322</u>	<u>\$ 213,790</u>

The following schedule reflects the payments necessary to retire long-term debt:

	Principal	Interest	Total
2019	\$ 213,790	\$ 17,201	\$ 230,991
2020	216,340	14,651	230,991
2021	67,246	11,991	79,237
2022	70,022	9,215	79,237
2023	72,920	6,317	79,237
Thereafter	106,004	4,324	110,328
	<u>\$ 746,322</u>	<u>\$ 63,699</u>	<u>\$ 810,021</u>

NOTE 7 – DEFINED BENEFIT PENSION PLAN

Highland Health Systems participates in the Employee's Retirement Systems of Alabama (ERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments.

Plan Description

The Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control which consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The ERS Board of Control consists of 13 trustees as follows:

1. The Governor, ex officio.
2. The State Treasurer, ex officio.
3. The State Personnel Director, ex officio.
4. The State Director of Finance, ex officio.
5. Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
6. Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in ERS pursuant to the *Code of Alabama 1975, Section 36-27-6*.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

The ERS serves approximately 909 local participating employers. The ERS membership includes approximately 88,517 participants. As of September 30, 2017, membership consisted of:

Retirees and beneficiaries	
currently receiving benefits	23,853
Terminated employees entitled to	
but not yet receiving benefits	1,401
Terminated employees not	
entitled to a benefit	7,154
Active Members	55,941
Post-DROP participants who are	
still in active service	<u>168</u>
Total	<u>88,517</u>

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Highland Health Systems did not elect to increase the employee contribution rate as provided by Act 2011-676.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with additional amounts to finance any unfunded accrued liability, the preretirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2018, the Board's active employee contribution rate was 5% of covered employee payroll for Tier 1 employees and 6% for Tier 2 employees, and the Board's average contribution rate to fund the normal and accrued liability costs was 5.87% of pensionable payroll.

The Board's contractually required contribution rate for the year ended September 30, 2018 was 7.87% of pensionable pay for Tier 1 employees, and 5.55% of pensionable pay for Tier 2 employees,. These required contribution rates are based upon the actuarial valuation as of September 30, 2015, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$408,281 for the year ended September 30, 2018.

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Net Pension Liability

The Board's net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2016, rolled forward to September 30, 2017, using standard roll-forward techniques as shown in the following table:

	<u>Expected</u>	<u>Actual</u>
(a) Total Pension Liability as of September 30, 2016	\$ 16,600,885	\$ 16,100,735
(b) Discount rate	7.75%	7.75%
(c) Entry Age Normal Cost for the period October 1, 2016 - September 30, 2017	479,550	479,550
(d) Transfers Among Employers:	-	(109,531)
(e) Actual Benefit Payments and Refunds for the period October 1, 2016 - September 30, 2017	(1,078,429)	(1,078,429)
(f) Total Pension Liability as of September 30, 2017 = [(a) x (1+(b))] + (c) + (d) + [(e) x (1 + 0.5*(b))]	<u>\$ 17,246,785</u>	<u>\$ 16,598,343</u>
(g) Difference between Expected and Actual:		\$ (648,442)
(h) Less Liability Transferred for Immediate Recognition:		<u>(109,531)</u>
(i) Experience (Gain)/Loss = (g) - (h)		<u>\$ (538,911)</u>

Actuarial Assumptions

The total pension liability as of September 30, 2017, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2016. The key actuarial assumptions are summarized below:

Inflation	2.75%
Projected Salary Increases	3.25% - 5.00%
Investment Rate of Return*	7.75%

* Net of pension plan investment expense.

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the actuarial valuation as of September 30, 2016, were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.0%	4.4%
U.S. Large Stocks	32.0%	8.0%
U.S. Mid Stocks	9.0%	10.0%
U.S. Small Stocks	4.0%	11.0%
International Developed Market Stocks	12.0%	9.5%
International Emerging Market Stocks	3.0%	11.0%
Alternatives	10.0%	10.1%
Real Estate	10.0%	7.5%
Cash Equivalents	3.0%	1.5%
Total	100.0%	

**Includes assumed rate of inflation of 2.50%*

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was the long term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at September 30, 2016	\$ 16,600,885	\$ 13,986,967	\$ 2,613,918
Changes for the year:			
Service cost	479,550	-	479,550
Interest	1,244,779	-	1,244,779
Changes of Assumptions	-	-	-
Differences between expected and actual experience	(538,911)	-	(538,911)
Contributions - employer	-	397,721	(397,721)
Contributions - employee	-	320,092	(320,092)
Net investment income	-	1,760,800	(1,760,800)
Benefit payments, including refunds of employee contributions	(1,078,429)	(1,078,429)	-
Administrative expense	-	-	-
Transfers Among Employers	(109,531)	(109,531)	-
Net Changes	(2,542)	1,290,653	(1,293,195)
Balances at September 30, 2017	\$ 16,598,343	\$ 15,277,620	\$ 1,320,723

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Board's net pension liability calculated using the discount rate of 7.75%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Board's Net Pension Liability	\$ 3,138,354	\$ 1,320,723	\$ (210,382)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017. The auditor's report dated August 31, 2018, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018, the Board recognized pension expense of \$115,212. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 148,719	\$ 842,282
Changes of assumptions	278,190	-
Net difference between projected and actual earnings on plan investments	-	462,939
Employer contributions subsequent to the measurement date	385,599	-
	<u>\$ 812,508</u>	<u>\$ 1,305,221</u>

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30:</u>	
2019	(217,698)
2020	(122,337)
2021	(301,264)
2022	(175,140)
2023	(61,873)
Thereafter	-

NOTE 8 – RESTRICTED NET POSITION

As of September 30, 2018, Highland Health Systems had restricted net position in the amount of \$21,013. The restricted net position consisted of a permanently restricted endowment and temporarily restricted cash. When the endowment reaches \$25,000, related distributions will be used to provide support to the Board according to the spending policy and endowment agreement. The endowment's balance at September 30, 2018 amounted to \$21,013. Cash in the amount of \$58,602 at September 30, 2017 was temporarily restricted for the Calhoun County Mental Health Advisory Board.

NOTE 9 – RISK MANAGEMENT

The Board is exposed to various risks of losses related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board maintains commercial insurance coverage covering each of the above risks of loss. Management believes that the coverage is adequate to prevent significant uninsured risk exposure to the Board.

NOTE 10 – CONTINGENCY

The Board is exposed to claims that may result in legal action. Management and its attorneys have indicated that any pending claims at September 30, 2018 would not have a material effect on the financial statements of the Board.

NOTE 11 – TRANSFER OUT

The Board approved a motion to no longer manage the funds of the Calhoun County Mental Health Advisory Board effective September 30, 2017. A transfer out and related payable to the Calhoun County Commission was recorded as of September 30, 2017.

HIGHLAND HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 12 – NET PENSION LIABILITY

During year ended September 30, 2018, the Board made a \$1,000,000 employer contribution to The Retirement Systems of Alabama to be applied to their unfunded pension liability. The contribution was approved by the Board in March 2018.

NOTE 13 – SUBSEQUENT EVENTS

In March 2019, the Board made an additional \$641,000 employer contribution to The Retirement Systems of Alabama to be applied to their unfunded pension liability as approved by the Board in March 2018.

Subsequent events have been evaluated through April 24, 2019, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

HIGHLAND HEALTH SYSTEMS
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
Last Four Fiscal Years Ending September 30

	2017	2016	2015	2014
<u>Total Pension Liability</u>				
Service Cost	\$ 479,550	\$ 524,991	\$ 536,066	\$ 484,896
Interest	1,244,779	1,195,472	1,201,443	1,145,840
Changes of Benefit Terms	-	-	-	-
Differences between Expected and Actual Experience	(538,911)	219,537	(742,985)	-
Changes of Assumptions	-	410,660	-	-
Benefit Payments, including Refunds of Employee Contributions	(1,078,429)	(1,130,109)	(1,008,205)	(863,190)
Transfers Among Employers	(109,531)	(128,125)	-	-
Net Change in Total Pension Liability	(2,542)	1,092,426	(13,681)	767,546
Total Pension Liability - Beginning	16,600,885	15,508,459	15,522,140	14,754,594
Total Pension Liability - Ending (a)	<u>\$ 16,598,343</u>	<u>\$ 16,600,885</u>	<u>\$ 15,508,459</u>	<u>\$ 15,522,140</u>
<u>Plan Fiduciary Net Position</u>				
Contributions - Employer	\$ 397,721	\$ 431,996	\$ 492,484	\$ 474,365
Contributions - Member	320,092	312,385	313,692	297,025
Net Investment Income	1,760,800	1,316,538	155,773	1,430,756
Benefit Payments, including Refunds of Employee Contributions	(1,078,429)	(1,130,109)	(1,008,205)	(863,190)
Transfers Among Employers	(109,531)	(128,125)	(1,262)	(154,865)
Net Change in Plan Fiduciary Net Position	1,290,653	802,685	(47,518)	1,184,091
Plan Net Position - Beginning	13,986,967	13,184,282	13,231,800	12,047,709
Plan Net Position - Ending (b)	<u>\$ 15,277,620</u>	<u>\$ 13,986,967</u>	<u>\$ 13,184,282</u>	<u>\$ 13,231,800</u>
Net Pension Liability (a) - (b)	\$ 1,320,723	\$ 2,613,918	\$ 2,324,177	\$ 2,290,340
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.04%	84.25%	85.01%	85.24%
Covered Payroll	\$ 6,074,196	\$ 6,226,754	\$ 6,268,157	\$ 6,448,285
Net Pension Liability as a Percentage of Covered Payroll	21.74%	41.98%	37.08%	35.52%

HIGHLAND HEALTH SYSTEMS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last Four Fiscal Years Ending September 30

	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 385,599	\$ 369,483	\$ 431,996	\$ 474,674
Contributions in Relation to the Actuarially Determined Contribution	385,599	369,483	431,996	474,674
Contribution Deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 6,571,918	\$ 6,074,196	\$ 6,226,754	\$ 6,268,157
Contributions as a Percentage of Covered Payroll	5.87%	6.08%	6.94%	7.57%

NOTES TO SCHEDULE

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2018 were based on the September 30, 2015 actuarial valuation.

Methods and assumptions used to determine contribution rates for the period October 1, 2017 to September 30, 2018:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Closed
Remaining Amortization Period	11 Years
Asset Valuation Method	Five Year Smoothed Market
Inflation	3.00%
Salary Increases	3.75 - 7.25%, including inflation
Investment Rate of Return	8.00%, net of pension plan investment expense, including inflation

SUPPLEMENTARY INFORMATION

HIGHLAND HEALTH SYSTEMS
SCHEDULE OF REVENUES
Year Ended September 30, 2018

	Federal Government	State Government	Local Government	Patient Fees	Other
U.S. Department of Health and Human Services Grants and Contracts	\$ 5,137,723	\$ -	\$ -	\$ -	\$ -
AL Department of Mental Health Grants and Contracts	-	4,408,989	-	-	-
Counties:					
Calhoun	-	-	30,500	-	-
Cleburne	-	-	18,000	-	-
Cities:					
Anniston	-	-	45,000	-	-
Calhoun	-	-	48,132	-	-
Jacksonville	-	-	11,000	-	-
Oxford	-	-	40,000	-	-
Patient Fees	-	-	-	128,112	-
Group Home Rents and Fees	-	-	-	-	475,687
Other Contracts	-	-	-	-	224,000
Retail Drugs	-	-	-	-	2,706,584
Donations	-	-	-	-	3,550
Investment Income	-	-	-	-	4,982
Disposition of Capital Assets	-	-	-	-	7,718
Other	-	-	-	-	167,017
Total Revenues	\$ 5,137,723	\$ 4,408,989	\$ 192,632	\$ 128,112	\$ 3,589,538

See Independent Auditors' Report.

HIGHLAND HEALTH SYSTEMS
SCHEDULE OF REVENUES
Year Ended September 30, 2017

	Federal Government	State Government	Local Government	Patient Fees	Other
U.S. Department of Health and Human Services Grants and Contracts	\$ 5,949,746	\$ -	\$ -	\$ -	\$ -
AL Department of Mental Health Grants and Contracts	-	3,973,542	-	-	-
Counties:					
Calhoun	-	-	30,500	-	-
Cleburne	-	-	21,125	-	-
Cities:					
Anniston	-	-	45,000	-	-
Calhoun	-	-	39,684	-	-
Jacksonville	-	-	11,700	-	-
Oxford	-	-	40,000	-	-
Patient Fees	-	-	-	136,725	-
Group Home Rents and Fees	-	-	-	-	573,462
Other Contracts	-	-	-	-	224,000
Retail Drugs	-	-	-	-	2,514,016
Donations	-	-	-	-	3,800
Investment Income	-	-	-	-	2,015
Disposition of Capital Assets	-	-	-	-	400
Other	-	-	-	-	214,646
Total Revenues	\$ 5,949,746	\$ 3,973,542	\$ 188,009	\$ 136,725	\$ 3,532,339

See Independent Auditors' Report.

HIGHLAND HEALTH SYSTEMS
SCHEDULE OF EXPENSES
Year Ended September 30, 2018

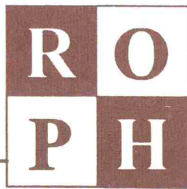
	Administrative Expenses	Program Expenses	Total Expenses
Salaries	\$ 919,410	\$ 5,652,508	\$ 6,571,918
Fringe Benefits	91,941	1,363,870	1,455,811
Advertising	40,731	1,695	42,426
Client Expenses	-	27,842	27,842
Contract Labor	11,789	17,105	28,894
Depreciation	111,608	105,937	217,545
Dues, Fees and Licenses	140,000	53,041	193,041
Employee Related Expenses	44,588	428	45,016
Food	-	242,593	242,593
Insurance	40,579	202,879	243,458
Other	5,639	359	5,998
Postage	9,422	66	9,488
Professional Fees	110,611	82,704	193,315
Rents	-	143,373	143,373
Repairs and Maintenance - Building	72,373	103,507	175,880
Repairs and Maintenance - Equipment	42,179	8,960	51,139
Repairs and Maintenance - Vehicles	-	90,496	90,496
Retail Drug Expense	-	2,378,313	2,378,313
Security Services	8,895	258,494	267,389
Small Furniture and Equipment	8,807	6,442	15,249
Supplies - Janitorial	5,980	7,935	13,915
Supplies - Office	60,780	11,656	72,436
Supplies - Program	39,207	187,374	226,581
Supplies - Other	-	3,273	3,273
Telephone	50,542	96,507	147,049
Training	4,886	1,923	6,809
Travel	28,120	97,783	125,903
Utilities	30,110	276,156	306,266
Vehicle Operation	-	88,984	88,984
Total Expenses	<u>\$ 1,878,197</u>	<u>\$ 11,512,203</u>	<u>\$ 13,390,400</u>

See Independent Auditors' Report.

HIGHLAND HEALTH SYSTEMS
SCHEDULE OF EXPENSES
Year Ended September 30, 2017

	Administrative Expenses	Program Expenses	Total Expenses
Salaries	\$ 1,067,343	\$ 5,382,033	\$ 6,449,376
Fringe Benefits	165,880	1,602,222	1,768,102
Advertising	47,350	1,487	48,837
Client Expenses	-	33,140	33,140
Contract Labor	10,269	2,125	12,394
Depreciation	128,536	107,423	235,959
Dues, Fees and Licenses	95,387	36,182	131,569
Employee Related Expenses	111,925	-	111,925
Food	-	256,090	256,090
Insurance	49,630	201,023	250,653
Other	71,911	-	71,911
Postage	11,429	56	11,485
Professional Fees	80,953	86,648	167,601
Rents	2,376	147,093	149,469
Repairs and Maintenance - Building	73,873	137,971	211,844
Repairs and Maintenance - Equipment	33,671	8,097	41,768
Repairs and Maintenance - Vehicles	-	61,514	61,514
Retail Drug Expense	-	2,159,163	2,159,163
Security Services	2,771	248,015	250,786
Small Furniture and Equipment	9,645	23,317	32,962
Supplies - Janitorial	11,484	24,533	36,017
Supplies - Office	95,177	19,406	114,583
Supplies - Program	-	249,322	249,322
Supplies - Other	-	2,885	2,885
Telephone	33,863	80,013	113,876
Training	11,879	533	12,412
Travel	45,545	100,652	146,197
Utilities	30,259	265,333	295,592
Vehicle Operation	-	81,785	81,785
Total Expenses	<u>\$ 2,191,156</u>	<u>\$ 11,318,061</u>	<u>\$ 13,509,217</u>

See Independent Auditors' Report.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Highland Health Systems
Anniston, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Highland Health Systems as of and for the year ended September 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Highland Health Systems' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Highland Health Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of Highland Health Systems' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

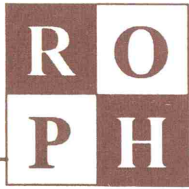
As part of obtaining reasonable assurance about whether Highland Health Systems' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rabren, Odom, Pierce & Hayes, PC

Andalusia, Alabama
April 24, 2019



RABREN, ODOM, PIERCE & HAYES, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE WITH DEPARTMENT OF MENTAL HEALTH CONTRACT

To the Board of Directors
Highland Health Systems
Anniston, Alabama

We have audited contract/grant/agreement numbers G8-032449, G8-134224, G8-294539, G8-352627, G8-325454, G8-340228 and G8-419237, between the Department of Mental Health (DMH) and Highland Health Systems as of and for the year ended September 30, 2018.

Compliance with DMH contracts/grants/agreements, Provider Agreement and all applicable laws, rules, and regulations applicable to Highland Health Systems is the responsibility of the Board's management. As part of obtaining reasonable assurance about whether the contracts/grants/agreements, Provider Agreement and all applicable laws, rules, and regulations were complied with, we performed certain tests of transactions and made other determinations as outlined in each requirement of Section 12, *Audit for Compliance with the Contract* of the DMH Audit Guidelines. Revenues and expenditures were analyzed to determine if they were in compliance with applicable terms and conditions of the contract/grant/agreement. Funds claimed as match for federal programs were audited to determine if they were allowable and adequate to match the federal funds received.

The results of our tests disclosed no material instances of noncompliance with the DMH contracts, Provider Agreement and all applicable laws and regulations.

This report is intended for the information and use of the members of the board, management and DMH. However, this report is a matter of public record and its distribution is not limited.

Rabren, Odom, Pierce & Hayes, PC

Andalusia, Alabama
April 24, 2019

HIGHLAND HEALTH SYSTEMS
BOARD OF DIRECTORS
September 30, 2018

<u>Officers</u>			<u>Term Expires</u>
Joe Whittington	President	P.O. Box 2065 Anniston, AL 36202	February 2019
Timothy King	Vice-President	1203 Eagle Crest Blvd. SW Jacksonville, AL 36265	December 2018
Linda Jenkins	Secretary	1521 Cambridge Place Anniston, AL 36207	September 2018
<u>Other Board Members</u>			
Jerry York	Member	5353 McIntosh Road Oxford, AL 36203	May 2019
Ellen Cole	Member	425 O'Grady Avenue Weaver, AL 36277	December 2018
Kevin Turley	Member	1646 County Road 35 Fruithurst, AL 36262	July 2016
Dr. Mohammad Ismail	Member	1531 Lakeshore Drive Anniston, AL 362070	May 2019
Jennifer Green	Member	173 Briarcliff Road Helfin, AL 36264	July 2019
Danny Waldrop	Member	576 Duke Drive Heflin, AL 36264	July 2019
David Ford	Member	272 Woodcreek Crossing Oxford, AL 36203	June 2020
Joy Seijo	Member	800 West 55th Street Anniston, AL 36201	December 2018
Jackie Brown	Member	2212 Paul Street Anniston, AL 36201	May 2022
Barbara Walters	Member	115 Jill Lane Anniston, AL 36201	January 2019
Lynn Smith	Member	66 West Manor Lane Alexandria, AL 36250	April 2021